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C O N F I D E N T I A L SECTION 01 OF 03 BEIRUT 02181

STATE FOR NEA/ARN AND AID/ANE/MENA

USDA FOR PAUL KIENDALL

E.O. 12356: DECL: OADR  
TAGS: [EAID](#) [EAGR](#) [ETRD](#) [BEXP](#) [PGOV](#) [PINR](#) [LE](#)  
SUBJECT: LEBANON: EXCHANGE WITH MFA ECONOMIC DIRECTOR  
ON U.S. WHEAT AID AND SALES

REF: BEIRUT 2062 (NOTAL)

¶1. (C - ENTIRE TEXT)

¶2. BEGIN SUMMARY: MFA DIRECTOR OF ECONOMIC AFFAIRS SALLOUKH MADE DEMARCHE TO DCM ON FAMILIAR THEME OF A GOVERNMENT-TO-GOVERNMENT WHEAT PROGRAM WITH THE U.S. SALLOUKH ARGUED THAT FREE WHEAT WOULD HAVE GOOD PROPAGANDA VALUE FOR THE U.S. AND WOULD HELP THE GOL'S FINANCES. REGARDING DISTRIBUTION, SALLOUKH THOUGHT THAT ALL FOREIGN ASSISTANCE PROGRAMS TO LEBANON WERE FLAWED IN THIS REGARD AND CONTENTED THAT LEBANON WAS NO WORSE THAN OTHER COUNTRIES. THE SMUGGLING PROBLEM, ACCORDING TO HIM, IS GREATLY EXAGGERATED; ONLY "5 PERCENT" OF LEBANESE BREAD IS DIVERTED TO NEIGHBORING COUNTRIES. THE DCM STRESSED THAT THE USG IS CONCERNED ABOUT EQUITABLE DISTRIBUTION TO ALL CONFESSIONS WITHOUT MILITIA INVOLVEMENT. EVEN IF LEBANON WERE GRANTED FREE WHEAT FROM THE U.S., IN ACCORDANCE WITH OUR WORLDWIDE POLICY, IT WOULD BE TIED TO THE GOL'S ENACTING ECONOMIC REFORMS. SPECIFICALLY, THE GOL WOULD HAVE TO ADDRESS THE PROBLEM OF ITS 38.7 MILLION USD BREAD SUBSIDY. THE DCM STATED THAT RECENT PRESS REPORTS, CITING AMBASSADOR BOUHABIB AS BLAMING THE U.S. EMBASSY IN BEIRUT FOR BLOCKING A WHEAT PROGRAM, WERE ERRONEOUS AND THE DECISION TO PROVIDE AID INVOLVES VARIOUS AGENCIES AND DEPARTMENTS IN THE USG. REGARDING WHEAT SALES, THE DCM UNDERLINED OUR STRONG DESIRE TO BE GIVEN A FAIR OPPORTUNITY TO COMPETE IN GOL WHEAT TENDERS. SALLOUKH PLANS TO ENLIST ECONOMY MINISTER QASSIR'S HELP IN PREPARING A REPORT ON THE WHEAT SITUATION IN LEBANON. HE WILL ALSO RAISE U.S. INTEREST IN COMPETING FOR GOL WHEAT TENDERS WITH THE MINISTER. THE DCM REPLIED THAT WE WELCOMED ANY INFORMATION SALLOUKH COULD PROVIDE ON BOTH SUBJECTS.  
END SUMMARY.

¶3. ON APRIL 12, DCM, ACCCOMPANIED BY ECON COUNSELOR, PAID INTRODUCTORY CALL ON AMBASSADOR FAWZI SALLOUKH, LEBANESE MINISTRY OF FOREIGN AFFAIRS ECONOMIC DIRECTOR. MEETING LASTED APPROXIMATELY AN HOUR. THE PRINCIPAL TOPIC OF DISCUSSION WAS WHEAT FOR LEBANON.

¶4. AMBASSADOR SALLOUKH MADE A STRONG PITCH FOR A GOVERNMENT-TO-GOVERNMENT WHEAT PROGRAM, WITH THE USG PROVIDING FREE WHEAT TO LEBANON. SALLOUKH INDICATED THAT AMBASSADOR BOUHABIB HAS ALREADY RENEWED THIS REQUEST IN WASHINGTON. FIRST AMONG THE REASONS CITED BY SALLOUKH FOR A WHEAT PROGRAM WAS THE "PROPAGANDA" VALUE FOR THE U.S. IN SO DIRECTLY HELPING THE GOL. SECONDLY, SALLOUKH STATED THAT FREE WHEAT WOULD ASSIST THE GOL IN COPING WITH ITS FOREIGN EXCHANGE SHORTAGE. SALLOUKH PROPOSED A U.S. WHEAT GRANT BE HANDLED AS A REGULAR WHEAT PURCHASE. THAT IS, THE GOL WOULD SELL THE FREE WHEAT TO THE MILLERS WHO IN TURN WOULD SELL THE FLOUR TO BAKERS. THE HARD CURRENCY SAVED FROM NOT HAVING TO PURCHASE WHEAT COULD BE SPENT ELSEWHERE, TOWARD PAYING LEBANON'S

EXTERNAL DEBT OR PURCHASES OF FOREIGN-MADE EQUIPMENT FOR LEBANON'S PUBLIC UTILITIES, FOR EXAMPLE.

¶15. SALLOUKH STATED THIS FRIDAY, APRIL 15, HE WILL BE MEETING ECONOMY MINISTER VICTOR QASSIR. SALLOUKH WILL SEEK THE MINISTER'S SUPPORT IN PREPARING A REPORT ON THE WHEAT SITUATION IN LEBANON TO BE PROVIDED TO THE U.S.

¶16. DCM TOOK THAT OPENING TO EXPLAIN TO SALLOUKH THAT PRESS REPORTS APPARENTLY STIMULATED BY LEBANESE AMBASSADOR TO THE U.S. ABDALLAH BOUHABIB THAT WASHINGTON FAVORED WHEAT AID TO LEBANON BUT THAT IT WAS OUR EVIL EMBASSY IN BEIRUT THAT WAS BLOCKING IT. WE WERE UNINFORMED. FIRST OF ALL, ON THE BASIS OF THE SEVERE NEED WE PERCEIVED HERE LAST FALL WHEN THE LEBANESE POUND AND PRICES HAD GONE CRAZY, WORSENING THE PLIGHT OF ALREADY POOR PEOPLE, WE HAD INCREASED THE FOOD AID THAT WE PROVIDED LEBANON THROUGH PVO'S BY 35 PERCENT, TO A VALUE OF SOME USD 23 MILLION. SECONDLY, THE DECISION TO PROVIDE THE FOOD AID BY THAT ROUTE, AS OPPOSED TO THROUGH A GOVERNMENT-TO-GOVERNMENT PROGRAM, HAD BEEN ARRIVED AT BY OUR USUAL DECISION-MAKING PROCESS, INVOLVING VARIOUS OFFICES IN WASHINGTON (AID, STATE, COMMERCE, AGRICULTURE, THE CONGRESS) AS WELL AS THE EMBASSY.

¶17. THE DCM THEN CONTINUED THAT ANY INFORMATION ON THE WHEAT SITUATION IN LEBANON IS MOST WELCOME. HE STATED THAT OUR CURRENT FOOD ASSISTANCE TO LEBANON IS CHANNELED THROUGH PRIVATE VOLUNTARY ORGANIZATIONS BECAUSE OF THE CENTRAL GOVERNMENT'S WEAKNESSES. HE UNDERLINED THAT THE PVO'S SEEM THE BEST VEHICLES TO ENSURE THAT OUR ASSISTANCE REACHES NEEDY LEBANESE, REGARDLESS OF CONFESSION. AMONG THE QUESTIONS DEBATED IN CONSIDERING WHEAT FOR LEBANON, THE DCM EXPLAINED, WERE EQUITABLE DISTRIBUTION, BREAD SMUGGLING OR "EXPORTS" TO NEIGHBORING COUNTRIES AND REFORM OF THE GOL'S BREAD SUBSIDY. DCM MADE IT CLEAR THAT BY "EQUITABLE DISTRIBUTION" WE MEAN HONEST DISTRIBUTION THROUGHOUT THE COUNTRY WITHOUT REGARD TO CONFESSION AND WITHOUT MILITIA INVOLVEMENT.

¶18. SALLOUKH RESPONDED THAT THE SUBSIDY MIGHT BE REDUCED, BUT SAID THAT THIS WOULD HAVE TO BE DONE "GRADUALLY," GIVEN THE CURRENT PUBLIC PRESSURE OVER SALARY INCREASES AND THE PERCEIVED HIGH COST OF LIVING. THIS DECISION IS "POLITICAL," HE DECLARED. DCM REPLIED THAT WE ESTIMATED THE BREAD SUBSIDY TO COST THE GOL USD 38.7 MILLION PER YEAR IN FOREIGN EXCHANGE AND STRESSED OUR WORLDWIDE POLICY INTEREST IN REFORMS DIRECTED TOWARD MORE OPEN MARKET-ORIENTED ECONOMIC POLICIES.

¶19. REGARDING BREAD EXPORTS, SALLOUKH CLAIMED THAT THIS PROBLEM IS "NOT AS DANGEROUS AS IMAGINED," HE DID NOT DENY THAT BREAD IS BEING SENT ABROAD. "FRANKLY SPEAKING," SALLOUKH SAID HE IS AWARE THAT THERE ARE TAXI DRIVERS DRIVING FROM LEBANON TO DAMASCUS WITH 5 KILOS OF LEBANESE BREAD WHO MAY GIVE ONE KILO AT THE BORDER TO SYRIAN OFFICIALS TO FACILITATE CROSSING. HE ALSO THOUGHT SOME LEBANESE BREAD GOES TO CYPRUS, BUT IS ONLY CONSUMED BY LEBANESE RESIDENT THERE, "A SMALL NUMBER." REGARDING SMUGGLING TO ISRAEL, SALLOUKH THOUGHT IT NON-EXISTENT. IN TOTAL, SALLOUKH ESTIMATED THE TOTAL BREAD DIVERTED FROM LEBANON AT NO MORE THAN 5, AND PROBABLY CLOSER TO 1 PERCENT OF THE TOTAL PRODUCED, NOT THE 25 PERCENT SOMETIMES CITED. WE LISTENED BUT DID NOT AGREE, INDICATING INTEREST IN ANY INFORMATION SALLOUKH COULD PROVIDE IN THAT REGARD.

¶10. ON DISTRIBUTION, SALLOUKH THOUGHT MOST AID TO LEBANON IS NOT HANDLED AS IT SHOULD BE. HE SAID THAT SAUDI ASSISTANCE, FOR EXAMPLE, HAD BEEN HANDED-OUT LOCALLY, REGARDLESS OF INCOME LEVEL; ALL 23 FAMILIES IN HIS APARTMENT BUILDING WERE OFFERED KING FAHD FOOD PACKAGES. WITH THE EXCEPTION OF HIS FAMILY AND TWO RELATIVES LIVING IN THE SAME BUILDING, THE TWENTY OTHERS ACCEPTED THE AID, THOUGH NOT IN NEED. SALLOUKH BELIEVED MALDISTRIBUTION EXISTS IN OTHER FOREIGN

ASSISTANCE PROGRAMS TO LEBANON AND FOR THAT MATTER THROUGHOUT THE WORLD. SALLOUKH CONTENDED THAT COMPARED TO OTHER COUNTRIES RECEIVING U.S. WHEAT, DISTRIBUTION AND SMUGGLING WOULD BE NO WORSE IF NOT SLIGHTLY LESS OF A PROBLEM IN LEBANON.

¶11. THE DCM STATED THAT THE USG WAS NOT ONLY CONSIDERING GIVING LEBANON WHEAT, BUT IS ALSO VERY INTERESTED IN SELLING IT AS WELL. HE POINTED TO OUR STRONG DESIRE TO COMPETE FOR GOL WHEAT TENDERS UNDER OUR EEP PROGRAM AND THE NEED TO GIVE AMPLE NOTICE TO U.S. EXPORTERS, CITING THE MOST RECENT EXPERIENCE IN REFTEL. (GOL INFORMED US--DELIBERATELY LATE--THAT IT HAD OPENED THE TENDER ON MARCH 28, WITH A DEADLINE OF MARCH 30.) SALLOUKH SAID HE WOULD RAISE THIS ISSUE WITH MINISTER QASSIR IN THEIR UPCOMING MEETING.

¶12. COMMENT: WE BELIEVE SALLOUKH IS SINCERE IN HIS PLEDGE TO RAISE THE WHEAT TENDER ISSUE WITH QASSIR. WE WOULD, HOWEVER, BE PLEASANTLY SURPRISED IF THIS RESULTS IN A REAL OPENING FOR U.S. EXPORTERS, GIVEN ALLEGATIONS THAT QASSIR HIMSELF BENEFITS FROM THE TRANSACTION AS IT OCCURS. END COMMENT.

¶13. BIO DATA: AMBASSADOR SALLOUKH, TWENTY-EIGHT YEAR VETERAN OF THE MFA, APPEARS TO BE IN HIS EARLY TO MID FIFTIES. HE IS A SHI'ITE MUSLIM FROM BETWEEN ALEY AND SOUK-EL-GHARB IN THE SHOUF MOUNTAINS. ALTHOUGH HE HAS SERVED THREE MONTHS AS MFA ECONOMIC AFFAIRS DIRECTOR, HE ALREADY SEEMS MORE ON TOP OF THE JOB THAN HIS PREDECESSOR GEORGE KHOURY, WHO HAD BEEN THERE ONE AND A HALF YEARS AND IS NOW OFF TO SANAA. MOST OF SALLOUKH'S YEARS ABROAD HAVE BEEN SPENT IN THE AFRICAN CONTINENT: 2 YEARS IN LIBERIA, 7 IN SIERRA LEONE, 9 IN NIGERIA AND 4 IN ALGIERS. FOR THE SAKE OF HIS CHILDREN'S EDUCATION, MANY OF THOSE YEARS HAVE BEEN SPENT WITHOUT HIS WIFE, DAUGHTER AND 2 SONS WHO REMAINED IN LEBANON. SALLOUKH SAYS HE HAS KNOWN MANY AMERICAN AMBASSADORS, MOST RECENTLY AMBASSADOR JOHNSTONE.

KELLY